

Message Text

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C O N F I D E N T I A L LIMA 10658

EXDIS

E.O. 11652: GDS
TAGS: EFIN
SUBJECT: GOP REQUEST FOR U.S. FINANCIAL SUPPORT

REF: LIMA 10570

1. FURTHER CONVERSATIONS OVER THE PAST COUPLE OF DAYS
HAVE PROVIDED THE FOLLOWING INFORMATION WHICH SUPPLEMENTS
OUR EARLIER REPORTING.

2. GOP PERFORMANCE RE IMF TARGETS. FINANCE VICE MINISTER
ALCANTARA TOLD US FIRMLY THAT THE GOP WOULD MEET ITS
POLICY TARGETS AS ESTABLISHED BY THE STANDBY. THE
BUDGET LIMITS WILL BE DECIDED OVER THE NEXT COUPLE OF
WEEKS AND ALCANTARA WAS CONFIDENT THAT THE IMF LIMITS
WOULD BE MET EVEN THOUGH THIS WOULD BE EXTREMELY
DIFFICULT FOR MINISTRIES. THE YEAR-END WAGE ADJUSTMENTS
WOULD ALSO BE HELD AT 10 PERCENT, AS PER THE IMF COMMITMENT,
BUT ON A WEIGHTED AVERAGE BASIS; WORKERS AT THE MINIMUM
WAGE WOULD GET SOME 20 PERCENT, WHILE HIGHEST INCOME LEVELS
WOULD ONLY BE INCREASED 6-7 PERCENT. THE GOP IS
ACTIVELY STUDYING INTEREST RATE POLICY WITH A VIEW TO
ESTABLISHING POSITIVE RATES; IN VIEW OF THE HIGHER THAN
ANTICIPATED INFLATION RATE AT THIS TIME, SOME ACTION ON
INTEREST RATES IS LIKELY IN THE NEXT MONTH OR TWO. RE
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EXPORTS, THE SHORTFALL TOWARD THE END OF 1977 IS DUE TO
MARKET CIRCUMSTANCES OUTSIDE OF THE CONTROL OF PERU,
AND ALCANTARA NOTED FISHMEAL IN PARTICULAR. HE ALSO
COMMENTED THAT IMF STAFF AS WELL AS GOP STAFF HAD
DEVELOPED THE EXPORT PROJECTION LAST SEPTEMBER. THIS
INFORMATION ON IMF TARGETS IS IN ACCORD WITH WHAT WE
HEARD FROM CENTRAL BANK PRESIDENT DE LA MELENA (SEE

REFTEL).

3. SOVIET ROLL OVER. ALCANTARA ALSO EXPRESSED AN OPTIMISTIC VIEW THAT ALL SOVIET CREDITS COMING DUE IN 1978 WOULD BE ROLLED OVER AS A RESULT OF CURRENT NEGOTIATIONS WITH THE SOVIETS.

4. PRIVATE BANK INVOLVEMENT. CITIBANK REGIONAL REP GEORGE FUGELSANG HAS KEPT IN CLOSE TOUCH WITH GOP AS WELL AS EMBASSY HERE. HE TELLS US THAT ALTHOUGH CITIBANK HAS THUS FAR ONLY CONSULTED CLOSELY WITH ONE OTHER MAJOR BANK, HE IS CONFIDENT THAT A MEDIUM TERM PACKAGE OF ABOUT \$400 MILLION CAN BE PUT TOGETHER BY THE PRIVATE BANKS (OF WHICH APPROXIMATELY \$250 MILLION FROM AMERICAN BANKS) BY MARCH AS LONG AS THE GOP CONTINUES ITS CURRENT BEST EFFORTS IN IMPLEMENTING THE AUSTERITY PROGRAM. THIS ASSESSMENT IS BASED NOT ONLY ON HIS JUDGMENT THAT THE GOP PROGRAM HAS GOOD PROSPECTS FOR SUCCESS OVER THE NEXT COUPLE OF YEARS, BUT ALSO THAT A MEDIUM TERM PACKAGE OF THIS SIZE IS REASONABLE IN VIEW OF OVERALL BANKING INTERESTS IN PERU. CITIBANK HAS RECEIVED THE SAME SET OF STATISTICS WE REPORTED IN REFTEL, AND THEREFORE THERE SHOULD BE A COMMON STATISTICAL BASE FOR DISCUSSION IN NEW YORK OR WASHINGTON. FUGELSANG WAS MOST CONCERNED AND EXPLICIT ABOUT ALLEGATIONS REPORTED TO HIM FROM WASHINGTON THAT THERE IS A NEGATIVE VIEW WITHIN THE U.S. GOVERNMENT
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BECAUSE IT APPEARED THAT A BRIDGE LOAN WOULD BE USED TO "BAIL OUT" THE COMMERCIAL BANKS. FUGELSANG DENIED THIS EMPHATICALLY AND GAVE US THE FOLLOWING INFORMATION. FROM DECEMBER 1977 THROUGH MARCH 1978, A TOTAL OF \$335 MILLION OF MEDIUM TERM LOANS WILL FALL DUE, AND PRESUMABLY THE GOP WILL REPAY MOST OR ALL OF THIS AS IS ITS POLICY OF MEETING SUCH OBLIGATIONS AND AVOIDING DEFAULT. HOWEVER, OUT OF THE \$335 MILLION, ONLY \$49 MILLION OR SOME 15 PERCENT IS DUE TO PRIVATE BANKS. WHILE THE PRIVATE BANKS WOULD EXPECT TO BE PAID THIS \$49 MILLION, THEY WILL DURING THE SAME PERIOD HAVE APPROXIMATELY \$500 MILLION OF SHORT TERM CREDIT FALLING DUE TO THE BANCO DE LA NACION, AND THIS PRESUMABLY WILL ALL BE ROLLED OVER. AND, OF COURSE, THE SAME BANKS WILL BE PUTTING TOGETHER CONCURRENTLY A NEW \$400 MILLION MEDIUM TERM BALANCE OF PAYMENTS LOAN.

5. COMMENT: OUR READING AT THIS POINT IS THAT THE GOP IS EXTREMELY NERVOUS ABOUT THE U.S. RESPONSE, CONCERNED THAT THEY WILL RECEIVE A REBUFF, AND SOMEWHAT HESITANT ABOUT WHAT TO DO NEXT. THEY SEE THE BALL IN OUR COURT AND ARE AWAITING OUR INITIAL RESPONSE, BUT THEY ARE

CERTAINLY OPEN TO SUGGESTIONS AS TO HOW TO PROCEED.

6. MY VIEW, REINFORCED BY THIS WEEK OF INTENSIVE EX-CHANGES HERE, IS THAT THE CURRENT GOP IS COMMITTED TO A STRONG AUSTERITY PROGRAM AND WILL NOT ABANDON IT SHORT OF COMPELLING CIRCUMSTANCES. I AM ALSO PERSUADED THAT A SUCCESSOR GOVERNMENT, IF MORALES BERMUDEZ SHOULD FAIL, WOULD BE UNLIKELY TO PURSUE EITHER THE ECONOMIC COURSE LAID OUT BY THE IMF OR THE STAGED OPENING TO DEMOCRACY TO WHICH THE CURRENT GOP IS PLEDGED. MY SENSE OF THE SITUATION IS THAT CONFIDENCE IS ERODING VERY FAST HERE AND THAT SOME GESTURE OF SUPPORT FROM THE USG WOULD BE OF GREAT VALUE TO THE GOP IN ITS EFFORTS TO STAY THE ROUTE. THE NEED FOR BRIDGE
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FINANCING OF AROUND \$100 MILLION SEEMS CLEAR; AT LEAST SOME PARTICIPATION BY THE USG IN THAT FINANCING WOULD, IN MY JUDGMENT, SERVE OUR MOST CRITICAL INTERESTS IN PERU.

7. WASHINGTON MAY WANT TO CONSIDER SOME FROM OF PORTIAL U.S. INVOLVEMENT IN A \$100 MILLION BRIDGE LOAN. FOR EXAMPLE, WE MIGHT WISH TO COMMIT \$25-\$35 MILLION OF BRIDGE FINANCE, LINKED TO IMF STANDBY CREDITS; CANADA JANPAN AND SOME EUROPEAN BANKS MAY TAKE ON A SIMILAR SHARE, WHILE A FEW LARGE COMMERICAL BANKS COULD PICK UP THE REMAINDER. IT IS DIFFICULT TO JUDGE FROM HERE THE FEASIBILITY OF SUCH A PACKAGE, BUT EVEN A PARTIAL U.S. PARTICIPATION IN THE BRIDGE LOAN WOULD GIVE SE THE ADVANTAGES DESCRIBED ABOVE.

8. NEEDLESS TO SAY, I AM IN COMPLETE AGREEMENT WITH THE DEPARTMENT THAT THE DIVERSION OF ANY USG RESOURCES TO THE SERICING OF THE GOP'S ARMS DEBTS TO THE USSR WOULD BE UNACCEPTABLE. A ROLL OVER WELL BEYOND THE BRIDGE WOULD HAVE TO BE AN ABSOLUTE CONDITION.
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